Tutorial Letter 201/2/2014

Selected Accounting Standards and Simple Group Structures

FAC2602

Semester 2

Department of Financial Accounting

This tutorial letter contains important information about the module.

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1 GENERAL

Dear Student,

Attached hereto please find the solution to assignment 01/2014.

It is in your own interest to work through the suggested solution in conjunction with the assignment and your own answer. Analyse your answer against the solution and ask yourself whether you understand why the solution is correct where your answer differed. Revise the tutorial matter and the assignments regularly. By repeatedly working through these questions under examination conditions (i.e. with no interruptions and within the time allowed), you will improve your knowledge of the subject and your examination technique.

Kind regards

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2 SOLUTION TO ASSIGNMENT 01/2014 – SEMESTER 2

QUESTION

1.	(3)	6.	(1)
2.	(2)	7.	(4)
3.	(4)	8.	(2)
4.	(1)	9.	(1)
5.	(3)	10.	(4)

Detailed solution and explanations:

1. The percentage of interest in Melbourn Ltd is:

$$\frac{\text{Investment in Melbourn Ltd}}{\text{Issued shares of Melbourn Ltd}} = \frac{120\ 000}{150\ 000} \times 100 = 80\%$$

2. Goodwill:

> **PLEASE NOTE:**
>
> Goodwill arises when the price paid by the parent (the investment of R540 000 paid by Sidney Ltd) is higher than the value of the equity or net assets acquired (80% of Melbourn Ltd's equity or net assets). Sidney Ltd paid a premium for the investment in Melbourn Ltd.

3. The amount that will be disclosed as goodwill in the consolidated statement of financial position is calculated as follows:

Analysis of owners' equity of Melbourn Ltd

	Total	Sidney Ltd 80% At	Since	NCI 20%
	R	R	R	R
At acquisition				
Share capital	300 000	240 000		60 000
Retained earnings	350 000	280 000		70 000
	650 000	520 000		130 000
Equity represented by goodwill – parent	20 000	**20 000**		-
Consideration and NCI	670 000	540 000		130 000

4. The amount that will be disclosed as trade and other receivables in the consolidated statement of financial position is calculated as follows:

	R
Trade and other receivables – Sidney Ltd	250 000
Trade and other receivables – Melbourn Ltd	254 000
	504 000

> **PLEASE NOTE:**
>
> 100% of the subsidiary's assets and liabilities are added to the parent's assets and liabilities in the consolidated statement of financial position after all intragroup transactions have been eliminated.

5. The amount that will be disclosed as non-controlling interests in the consolidated statement of financial position is calculated as follows:

Analysis of owners' equity of Melbourn Ltd

		Sidney Ltd 80%		
	Total	**At**	**Since**	**NCI 20%**
	R	**R**	**R**	**R**
At acquisition				
Share capital	300 000	240 000		60 000
Retained earnings	350 000	280 000		70 000
	650 000	520 000		130 000
Equity represented by goodwill – parent	20 000	20 000		-
Consideration and NCI	670 000	540 000		130 000
Since acquisition				
To end of current year				
Profit for the year	270 000		216 000	54 000
Dividends paid	(50 000)		(40 000)	(10 000)
	890 000		176 000	**174 000**

> **PLEASE NOTE:**
>
> Non-controlling interests are presented as a credit in the consolidated statement of financial position, as it reflects what is owed to the non-controlling owners in terms of their share of the equity.

6. The amount that will be disclosed as inventory in the consolidated statement of financial position is calculated as follows:

	R
Inventory – Sidney Ltd	380 000
Inventory – Melbourn Ltd	240 000
	620 000

7. The amount that will be disclosed as opening retained earnings in the consolidated statement of changes in equity is calculated as follows:

	R
Retained earnings 1 January 2013 – Sidney Ltd	650 000
Retained earnings 1 January 2013 – Melbourn Ltd	-
	650 000

PLEASE NOTE:

On consolidation, we add the parent's retained earnings to the subsidiary's retained earnings, but limited to the parent's share in the subsidiary's equity (hence only 80% of Melbourn Ltd's retained earnings). The non-controlling interests' portion will be separately disclosed under non-controlling interests in the statement of changes in equity. Only the "since acquisition date" portion of the subsidiary's retained earnings will be included. The "at acquisition date" portion was eliminated against the investment in the subsidiary. In this question the acquisition date was at the beginning of the current year and therefore there are no opening retained earnings of the subsidiary included in the consolidated statement of changes in equity.

8. The amount that will be disclosed as 6% debentures in the consolidated statement of financial position is calculated as follows:

	R **Dr**	**R** **Cr**
6% Debentures - Sidney Ltd	8 000	
6% Debentures - Melbourn Ltd		(25 000)
Less intragroup debentures	(8 000)	8 000
	-	(17 000)

PLEASE NOTE:

- Students were not penalised and automatically received the marks for this question, as this question might have caused confusion. The question did not clearly state that the 8 000 6% debentures of Sidney Ltd were obtained from Melbourn Ltd.
- On consolidation, the intragroup transactions must be eliminated. Melbourne Ltd issued debentures worth R8 000 to Sidney Ltd. 100% of the subsidiary's assets and liabilities are added to the parent's assets and liabilities in the consolidated statement of financial position, after eliminating the intragroup debentures amounting to R8 000.

9. The amount that will be disclosed as dividends paid in the consolidated statement of changes in equity, under the retained earnings column, is calculated as follows:

	R
Dividends paid – Sidney Ltd	100 000
Dividends paid – Melbourn Ltd	-
	100 000

PLEASE NOTE:

- On consolidation, the intragroup dividends of R50 000 paid by the subsidiary to the parent and non-controlling interests are eliminated. Only the dividends paid by the parent to its owners are disclosed under the retained earnings of the group.

- The question did not clearly state whether the dividends paid in the retained earnings column, or the total dividends paid, including those in the non-controlling interests' column, were required. The non-controlling interests' column will disclose the dividends of R10 000 (see the analysis) paid to the non-controlling shareholders. It is subtracted in the non-controlling interests' column (reducing the balance) as they realised a portion of their share in the profit in the form of a dividend received. Students were not penalised and automatically received the marks for this question, as the question might have caused confusion.

10. The amount that will be disclosed as long-term borrowings in the consolidated statement of financial position is calculated as follows:

	R
Long-term borrowings – Sidney Ltd	180 000
Long-term borrowings – Melbourn Ltd	200 000
	380 000

Disclosure (included for completeness, but not required in the question):

SIDNEY LTD GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

	Share capital R	Retained earnings R	Total R	Non-controlling Interests R	Total equity R
Balance at 1 January 2013	400 000	650 000	1 050 000	②130 000	1 180 000
Changes in equity for 2013					
Total comprehensive income for the year					
Profit for the year		558 000[a]	558 000	①54 000	612 000
Dividends paid		(100 000)	(100 000)	(10 000)	(110 000)
Balance at 31 December 2013	400 000	1 108 000	1 508 000	174 000	1 682 000

[a] 342 000 + 270 000 – 54 000①

Only an extract of balances was provided (not all balances).Therefore the disclosure of the statement of financial position is not included, as the statement would not balance.